

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2019/20 we received a subsidy of £309.9m.

Bills

We bill non-domestic customers which generated £80.5m of revenue in 2019/20 and road drainage charges of £22.6m from DfI.

Other income

Other forms of income were £16.1m in 2019/20.

Government loans

We borrow from the DfI to help fund our capital investment programme. £40.0m was borrowed in 2019/20.

Investment

Investment in new assets and on our network totalled £181.2m in 2019/20.

Day-to-day operating costs

Our day-to-day running costs totalled £282.0m in 2019/20. These costs include staff, power, rates, hired and contracted services.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £147.3m in 2019/20.

Financing our investment

Interest on our borrowings from DfI £50.0m and our Public Private Partnership liabilities £12.2m comprised the majority of our net finance charges of £62.8m in 2019/20.

Profit before tax

The profit before tax was £84.5m in 2019/20.

Corporation tax

We have not paid any corporation tax due to capital allowances, which defer our tax to future years, when the benefits of the investments are realised. In 2019/20 we have provided £36.1m for tax to be paid in future years.

Profit after tax

The profit after tax for the year was £48.4m. This is an accounting profit and provides no additional spending power either to NI Water or to DfI.

Reinvestment of profit

Any remaining profits reduce the loans required from DfI.

Dividend

A dividend of £28.3m was paid to the DfI in 2019/20. The dividend to DfI represents a return to the taxpayer on the amount invested in the Company.

Financial performance

NI Water is required to prepare two sets of accounts to report on financial performance:

- Statutory Group Accounts prepared under International Financial Reporting Standards (IFRS) covering NI Water Limited (both our appointed (regulated) and non-appointed (non-regulated) businesses) and our subsidiaries; and
- Regulatory Accounts for NI Water Limited for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines issued by the Utility Regulator.

Our appointed business relates to the provision of certain water and wastewater services under our Instrument of Appointment (the Regulatory Licence). We are the monopoly supplier of these services.

Our non-appointed business operates in competitive markets and is ring fenced from our appointed activities to prevent cross subsidisation. Non-appointed activities include septic tank emptying, vehicle maintenance and rental of aerial masts to the telecommunications sector.

Pages 117 to 193
Read our Statutory Accounts.
The Regulatory Accounts are published separately.

Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Revenue	429.1	416.4
Results from operating activities	147.3	141.7
Net finance charges	(62.8)	(61.1)
Profit before tax	84.5	80.7
Income tax expense	(36.1)	(14.5)
Profit for the year	48.4	66.2
Other comprehensive expenditure, net of income tax	(0.3)	(9.4)
Total comprehensive income for the period	48.1	56.8

Revenue has been stated excluding the value of adopted assets (£46.7m) (2018/19: £34.3m) following the adoption of IFRS 15 "Revenue from Contracts with Customers" in 2018/19. It is considered that the adoption of assets creates a long term obligation to maintain the related assets and therefore the revenue should be spread over the life of

See the latest Regulatory accounts at: <https://www.niwater.com/publications/>

In November 2017 NI Water Limited acquired Kelda Water Services' holdings in a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the Group can be found at Note A5 to the Statutory Accounts.

The financial performance section refers to NI Water (the Group) unless otherwise indicated.

The £48.4m profit after tax for the year is an accounting profit and provides no additional spending power either to NI Water or to DfI.

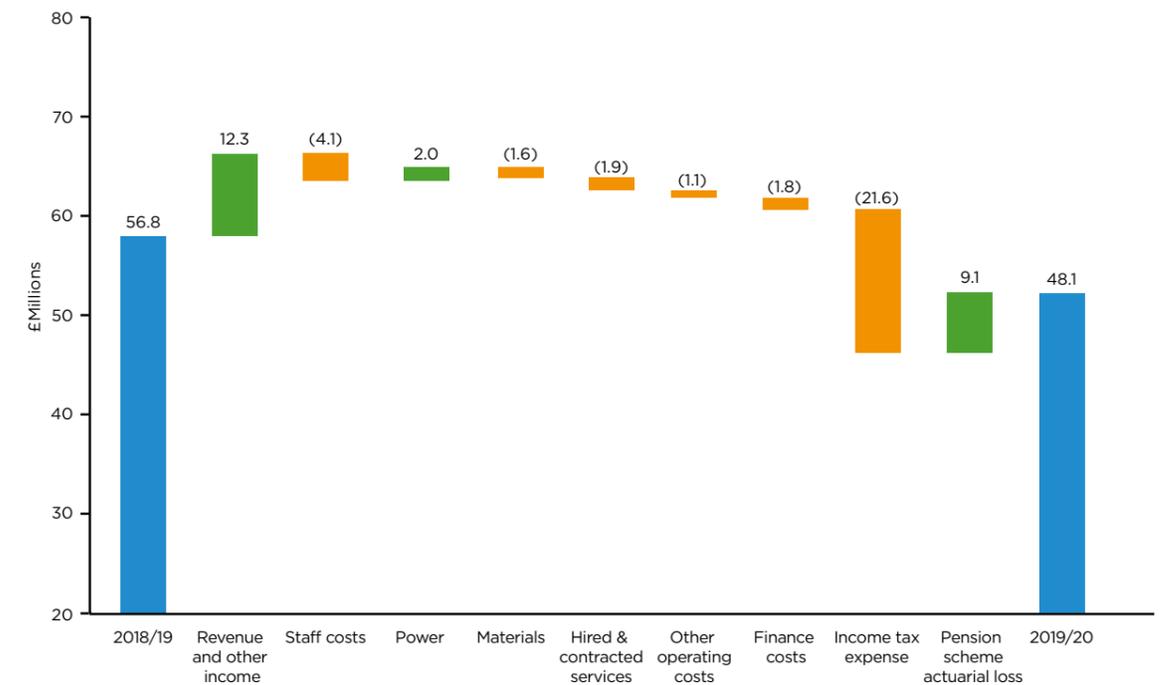
Consolidated Statement of Comprehensive Income

Our Consolidated Statement of Comprehensive Income (SOCl) as presented on page 121 is summarised below.

the assets through a deferred credit release (£3.3m) (2018/19: £3.1m).

A reduction of £0.8m (2019: nil) to Revenue was made to take account of the estimated impact of Covid-19 on our billed customers towards the end of the financial year. It is expected that there will be a more significant impact in 2020/21.

Movement in total consolidated comprehensive income for the period



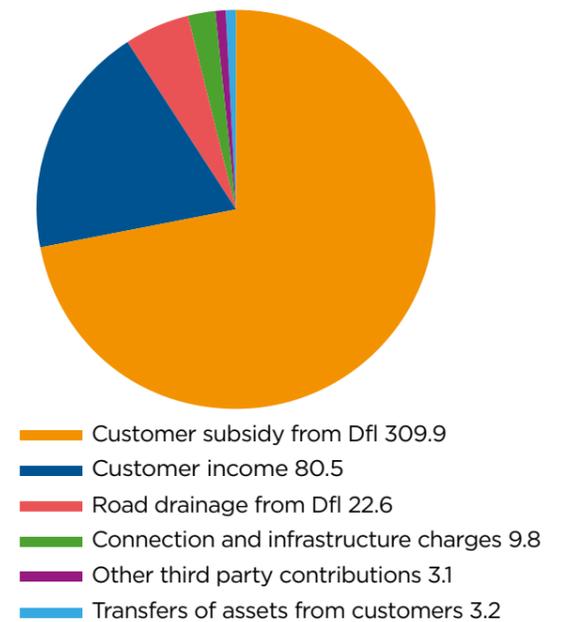
Revenue

Domestic consumers are not charged directly for water and wastewater services. As a result, NI Water is dependent on Government subsidy for around 72% of its total revenue.

The customer subsidy from Government covered the full domestic charge and this arrangement will remain in place until 2022.

Revenue was £429.1m for the year to 31 March 2020 (2019: £416.4m). Included in revenue was £332.5m (2019: £321.8m) received from DfI, being subsidy of £309.9m (2019: £299.9m) and road drainage charges of £22.6m (2019: £21.9m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2019/20 (£m)

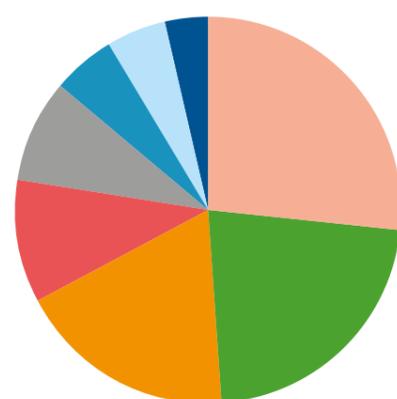


See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2019/20 of £282.0m (2019: £275.5m) increased from last year. The increase primarily resulted from higher staff costs relating to the pension scheme (provision for McCloud case (see Statutory Accounts Note D4 for further information)) and depreciation costs as a result of the increased asset base. This was partially offset by lower power costs in the year. Results from operating activities before interest for the year was £147.3m (2019: £141.7m).

Operating expenses 2019/20 (£m)



- Depreciation: 84.5
- Staff costs: 69.6
- Hire and contracted services: 57.4
- Power: 32.2
- Rates: 27.5
- Own work capitalised: (16.0)
- Raw materials and consumables: 16.1
- Other operating expenses: 10.7

NI Water is one of the largest users of electricity in Northern Ireland. We spent around £32.2m on power in 2019/20.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £50.0m (2019: £49.3m); our Public Private Partnership (PPP) liabilities of £12.2m (2019: £12.6m) and net finance costs on the pension fund of £0.7m (2019: £0.5m). This was partly offset by £0.1m (2019: £1.1m) fair value amortisation in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £0.1m (2019: £0.2m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £36.1m (2019: £14.5m) for which payment is deferred to future years. The effective tax rate for the year to 31 March 2020 was (42.6%) (2019: 18%). The increase from 2019 is largely due to the increase in the rate of corporation tax by 2% to 19%. See Statutory Accounts Note F1.

Capital allowances available on our capital investment programme allow us to defer our tax to future years, when the benefits of the investments are realised.

Pension scheme actuarial loss

In 2019/20 there was an actuarial loss of £0.3m (2019: £9.4m loss). See page 81 and Statutory Accounts Note E2 and G3.

Distributions

The Board will consider a proposal to declare a dividend of £31.5m in August 2020 (2019: £28.3m). See Statutory Accounts Note B3.

The dividend to DfI represents a return to the taxpayer on the amount invested in the Company.

Capital structure

The Consolidated Statement of Financial Position (SOFP) at 31 March 2020 as presented on page 119 is summarised below. In 2019/20 we adopted IFRS 16 Leases. The Group has a limited number of lease contracts and the value added to the asset base at the start of the year was £2.6m with an equivalent amount added to lease liability. See Statutory Accounts Note A10 for further information.

Total assets increased by 4.5% to £3,359.1m (2019: £3,210.5m).

Our net debt¹ figure was £1,370.1m at 31 March 2020 (2019: £1,333.1m).

Gearing (the ratio of net debt to equity and net debt) was 55.0% (2019: 54.7%).

Summary Consolidated Statement of Financial Position

	At 31 March 2020 £m	At 31 March 2019 £m
Total non-current assets	3,298.1	3,152.1
Total current assets	61.0	58.4
Total Assets	3,359.1	3,210.5
Equity	1,122.3	1,102.5
Total non-current liabilities	2,106.2	1,975.8
Total current liabilities	130.6	132.2
Total liabilities	2,236.8	2,108.0
Total equity and liabilities at 31 March	3,359.1	3,210.5

Liquidity

Operating activities generated a net cash inflow of £235.3m (2019: £222.7m). Net cash outflows of £179.7m (2019: £185.6m) related to investing activities. Net financing activities created a cash outflow of £59.5m (2019: £30.8m).

Our working capital requirements are met from a committed working capital facility of £20m and from available positive cash balances.

Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

Investing activities included the acquisition of property, plant and equipment of £186.1m (2019: £187.9m), proceeds from the sale of property, plant and equipment of £1.5m (2019: £0.6m), interest received of £0.1m (2019: £0.2m) and grants received of £4.8m (2019: £1.5m).

Working capital represents the funds available for day-to-day operations. It includes inventories, trade receivables and trade payables.

¹ Refer to Notes A8 and B1 in the Statutory Accounts. Net debt consists of loans from DfI of £1,186.6m (2019: £1,146.6m), external loans relating to subsidiaries of £76.8m (2019: £82.8m), derivative financial instruments of £10.4m (2019: £9.8m); and finance leases of £111.2m (on consolidation Alpha finance lease excluded) (2019: £112.7m) less cash and cash equivalents of £14.9m (including £11.8m from consolidated entities), (2019: £18.8m).

Pension funding

The pension scheme was valued at a liability of £42.5m at 31 March 2020 (2019: liability of £35.6m). This was made up of a total market value of assets of £234.0m (2019: £238.3m) less actuarial value of liabilities £276.5m (2019: £273.9m). The increase in the net liability arises primarily due to the lower than expected return on the Scheme's assets and the impact of Covid-19. See Statutory Notes E2 and G3.

NI Water's pension scheme is a separate legal entity which is run by a Board of Trustees.

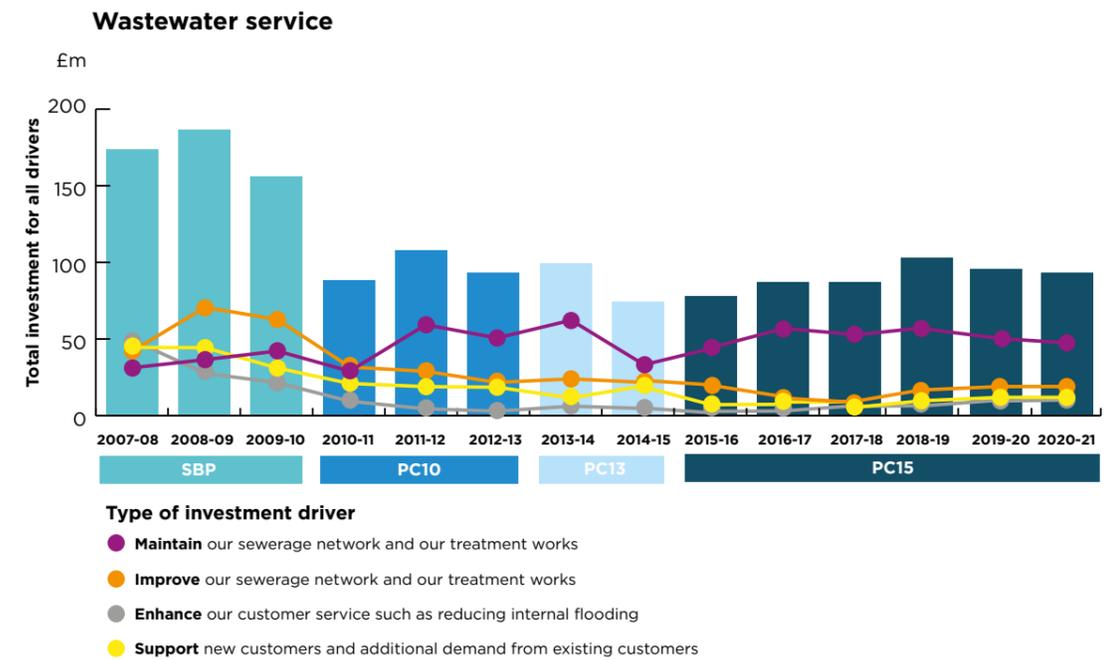
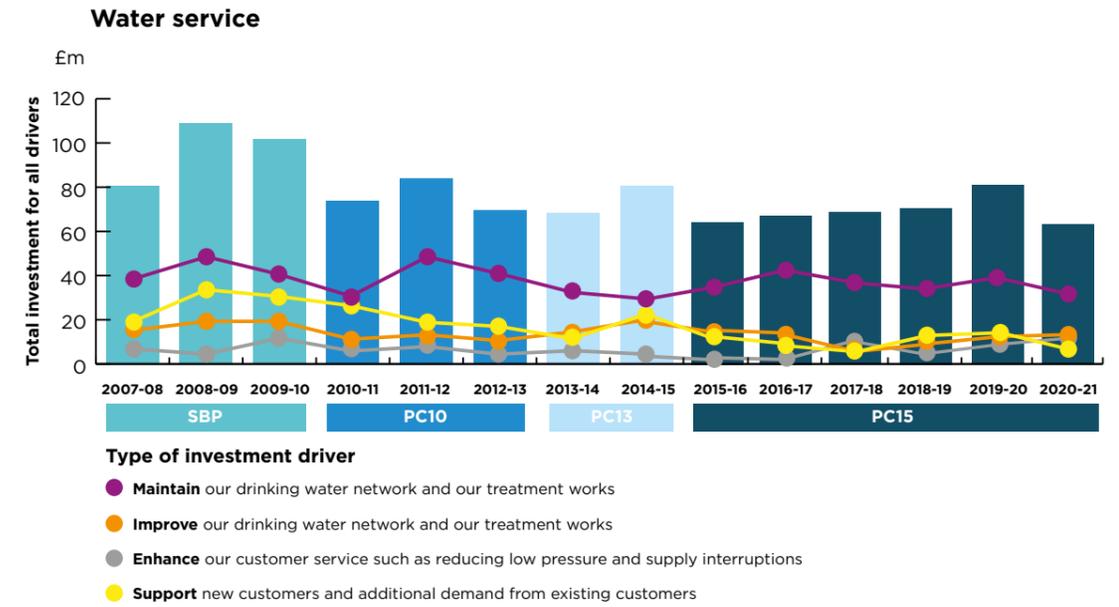
Investing in our water and wastewater infrastructure

We have invested £2.4bn in Northern Ireland's water and wastewater infrastructure since our formation in 2007/08.

Around £174m of capital investment was delivered during 2019/20. £94m was invested in maintaining the current assets and a further £80m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £157m is planned for 2020/21.

Investment in 2019/20 included the completion of two wastewater treatment works, remediation of three unsatisfactory intermittent discharges and laying approximately 150km of new, renewed and relined water mains.

Investment analysed by investment driver



This Strategic Report was approved by the Board of Directors on 25 June 2020 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
25 June 2020